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DEVELOPMENT OF THE TRANS-EUROPEAN TRANSPORT NETWORK, FUNDING NEEDS AND PROPOSED SOLUTIONS

1. General remarks.

I am pleased to contribute to this International Convention on the great Infrastructure Works at a crucial moment for the further development of the trans-European transport network.

The coincidence of the need to extend transport-links into the 10, later 12 acceding countries and the current public investment funding limits under the auspices of the Stability and Growth Pact represent major challenges to the future development of the network.

The Maastricht Treaty states that trans-European networks (TENs) in transport, telecommunications and energy are needed to ensure that all citizens of the European Union may benefit from the creation of the Single Market. The TEN-T network in particular plays a crucial role in securing the free movement of goods in the European Union. It carries about half of all freight and passengers. The guidelines for the TEN-T define the Union's priorities by attaching the "network" label to certain routes, so channelling EU financial support to projects with greater Community added value.

While EU financial support from the TEN budget is somewhat limited (less than 10% of the total cost in principle), the Cohesion Fund, the European Regional Development Fund, to some extent the Research and Technology Development funds as well as the European Investment Bank play an important role. The network serves as a reference framework for other Community legislation and promotes the economic, social and territorial cohesion of the Union. Some major projects are included in a list of priority projects: They only represent a part of the numerous projects of the TEN-T, however their selection from a wide-range of projects gives them a high profile making it possible to concentrate, attract and co-ordinate financial resources.

2. What have we achieved so far?

After including a chapter on "trans-European networks" into the ECTreaty in 1993 and after the identification of 14 priority project by the Essen-summit in 1994, the first "guidelines for the TEN-T network" were established in 1996[1]. The cost of this network was estimated at roughly 500 billion €, of which we estimate that investments of approximately 180 billion € (almost 10% of that from European sources) have been realised between 1996 and 2001[2]. With that, important successes have been made, although recently the pace of investment has slowed down.

One of the main problems encountered with the network, is the slow progress of cross-border segments. Despite the overall positive network development these segments have in many cases, been treated with a lower priority from the respective Member States and with differing implementation speed on respective sides of borders. Reasons for that may be due to different traffic volume

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[1] Decision 1692/96.

[2] Provisional results of TEN - Invest: Transport Infrastructure Costs and Investments between 1996 and 2010 on the Trans-European Transport Network and its Connection to Neighbouring Regions, PLANCO Consulting GmbH, Essen, Germany, 2003.

from a national standpoint and to financing asymmetries due to different availability of European funds. In the Brenner railway corridor for example, only 20% of the total cost has been invested and the main element, the base tunnel has not even been started. In the case of the Somport tunnel between Spain and France, only the Spanish road access has been well developed due to a high financial contribution from the Cohesion fund.

The relatively modest TEN-budget, with a maximum financing threshold of 10% of the total cost has therefore focused on these segments. It has also been streamlined and made more reliable through the introduction of the so-called multiannual indicative programme, in application since 2001.

3. The need to revise the guidelines - Results of the Van Miert High Level Group.

As underlined in the 2001 White Paper on transport[3] the TEN-T guidelines should now be adapted to take into account a worrying increase in congestion due to the persistence of bottlenecks, missing links, a lack of interoperability, and the pressing need to promote a modal rebalancing. The prospect of enlargement to include 12 new countries accentuates the need for a new approach to preserve the competitiveness of the European economy and to guarantee a balanced and sustainable development of transport.

Since then, the European Councils of Gbteborg, Barcelona and Brussels have repeatedly called on the Community institutions to adopt revised guidelines by 2003 and new priority projects.

A first limited revision was proposed by the Commission in October 2001 and accepted, in its broad lines, by the European Parliament but is still pending within the Transport Council. Nevertheless, in order to prepare for enlargement, Mrs Loyola de Palacio, the Vice President of the Commission and Commissioner for

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[3] Published on 12 Sept 2001 and available for consultation at http://europa.eu.int/comm/energy transport/en/lb en.html.

Transport and Energy, decided to initiate a second step for a more profound revision of the TEN-Tguidelines.

In order to involve the States from the outset of this extensive exercise, given the important territorial and financial impact of major infrastructure projects, a High-Level Group on the TEN-T has been set up by the Commission under the chairmanship of Karel Van Miert, former Commission Vice-President, previously responsible, in particular for transport policy[4]. The Group was mandated to identify, by summer 2003, the priority projects and horizontal issues key for the transEuropean transport network up to 2020 on the basis of proposals from the Member States and the acceding countries.

After having considered 100 projects submitted by Member States and acceding countries, the Group developed its own methodology[5] and selected a restricted number of priority projects on the transport network of the expanded Union. The Group also studied the obstacles of a financial, legal and administrative nature to the implementation of these priority projects. Finally, the Group issued recommendations relating to the preparation of the next stages of the construction of the network.

The Group's message is straightforward. Although the domestic sections of the Essen projects are making fair progress –

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[4] Report of the High Level Group on the Trans-European Transport Network, Brussels, June 27th, URL: http://europa.eu.int/comm/ten/transport/revision/hlg/2003_report_kvm_en.pdf.

[5] The selection method.

All selected projects had to:

- be on a main trans-European axis of the enlarged Europe, taking in particular into account natural barriers, congestion problems or missing links.
- have a European dimension and meeting a threshold of € 500 million;
- show potential economic viability, other socio-economic benefits and firm commitments from the concerned Member States to complete the project within an agreed timeframe;

Additional criteria were the following:

- the European value added of the project, in terms of importance for facilitating exchanges between Member States;
- the strengthening of cohesion;
- the contribution to the sustainable development of transport while tackling the problems of safety and of environmental protection and by promoting modal transfer.

most of them will be completed in 2010 – worrying delays affect the cross-border sections, in spite of their highest European added value. Moreover, due to the traffic induced by the economies of the Eastern countries and the pressing need of sustainable development, even with a very selective methodology, no less than 22 projects covering all the countries of the enlarged Union need to be implemented at the time horizon of 2020, including 18, the works of which should start before 2010. For this purpose, a range of financial and administrative obstacles needs to be overcome, not least to rethink the current Community financial support judged by the group insufficient – the TEN budget line has only € 700 mill. per year – and not giving enough incitements to public and private investors.

4. Funding-challenges and innovative solutions.

The priority projects selected by the Group represent funding estimated at around 235 billion € between now and 2020, more than a 110 billion € of which for the Essen/Dublin projects still to be carried out. However, they represent only a small part of all the investments needed to complete a functioning trans-European network in an enlarged Union since the Van Miert group estimates the total investment needs until 2020 (priority projects and other projects) at more than 600 billion €.

Annual investments needed to carry out the recommended priority projects represent on average 0.16% of GDP, they are however key productive investments that will improve the potential for economic growth, by improving the dynamics of the internal market and by promoting sustainable development and a greater European territorial cohesion. As put forward by the Van Miert group, decision makers' attention needs, in this context, to be drawn to the incongruity in the long term between what is at stake in carrying out these projects and the constraints curbing public funding. Indeed at the end of the day, either the tax payers or the users have to pay.

Innovative funding and project management solutions are requested more than ever to optimise the combination of the two streams of financing, to save costs and eventually to mobilise investors, without necessarily putting at stake the rules to monitor the budgetary disciplines under the Stability and Growth pact.

From a broader economic point of view, the Commission initiative for growth requested by the Thessaloniki European Council shows that European policy makers increasingly understand the need for improved investments in sectors like the TEN and R&D in order to strengthen the productivity and competitiveness of Europe.

Following its recent Communication[6] on this issue and the high level group recommendations, the Commission is now working on several options.

The *revision of the guidelines for the trans-European transport network.* Taking in particular account of the Van Miert group's recommendations, the revised guidelines should update the list of the priority projects and axes and introduce coordination mechanisms, for instance by establishing *community structures* for major projects or group of projects on the major axes of the trans-European network. Such structures would promote, follow and coordinate the investments, thus improving their coherence, scale effects and overall profitability. The revision is also the opportunity to propose the possibility of suppressing the duplication of national authorisation procedures in the case of cross-border projects which could be substituted by a *Declaration of European Interest.*

In the context of the *preparation of the next financial perspectives post-2007,* the adaptation of the financial instruments (TEN budget, Cohesion Funds, structural funds) granting funds to the TEN-T implying a significant increase of the overall budgets available for the TEN-T. At least € 4 billion per year would be needed, which may seem high but actually would represent less than 4% of the Community budget. New specific financial instruments should be redesigned to allow a stronger leverage effect, in particular for cross-border projects. It is actually dose to the idea of

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[6] COM (2003) 132: Innovative funding solutions to develop the trans-European-transport-network, adopted on April 23rd, 2003.

the European Parliament to create a "European Fund" proposed in its opinion on the White paper on the European transport Policy.

The creation of new mechanisms for *loan guarantees* covering for example non-commercial risks such as the risk of delays in works on adjacent infrastructure in another country. It could build on the experience with the current Community Guarantee Fund for loans in third countries and take the form of a Mutual Risk Fund funded by the Member States concerned and the Community, preferably with the involvement of the EIB.

A regulatory framework more conducive to *public-private partnerships* (PPP), which even if not proving an important share of private capital for the major TEN projects, oblige greater transparency of costs and thus the public authorities to strict management and to clarify their long term policy in terms of regulations or infrastructure charging. A green paper in the field of concession will be presented soon. In the field of infrastructure charging, a modification to the directive 99/62 on the taxation of lorries will be proposed in the summer and will clarify the rules allowing cross-financing of other sections or modes of the network, in particular the extent to which Alps rail crossings can be co-financed by road tolls. For cross-border projects, the Statute of the European Company applicable in 2004 can be used.

I would finally also consider more in-depth investigation into a number of additional recommendations expressed in the final report of the Van Miert group, including:

The financing capacity of the European Investmment Bank could be further developed through various financial engineering techniques, in particular by the creation of the new TEN investment facility up to a volume of 50 billion € allowing the granting of long term loans at least for investment grade projects.

The practice of risk assessment, which is key to successful PPP, remains not very wide-spread in the transport sector which is traditionally in the public sphere. Economic appraisals methods differ significantly between Member States. Proposals to make more systematic the analysis of the various risks and the private financing opportunities of every future major priority project and to bring closer economic evaluation methods applied by Member States for transport infrastructure projects deserve a greater attention.

To illustrate recent experience of project development and financing techniques for public private partnerships in the field of road and rail infrastructure, I would like to refer to the cases of Portugal's highway network, as well as their planned highspeed rail network, the French highway-financing concept and the overall evaluation of experience gained with the British private finance initiative (PFI) all re-inforce the possibility of increasing the value of public money through PPP-schemes.

A PPP-programme is not a panacea and we have to be well aware of its' limitations. But we have to encourage and assist Member States to increase the value of public money as an indispensable contribution to accelerate the implementation of the TEN-T-network.

The ever-increasing amount of experience with innovative procurement, financing and project management schemes in Europe should be a good basis to approach this issue in a more systematic and more coherent way in all of the Union's Member States.

The proposal of the present Italian EU-presidency to increase very substantially the TEN-transport related lending capacity of the EIB, which has in the past financed a large number of PPP-projects, may not only lead to a strong push for the whole network but also contribute to a stronger coherence between those schemes.

The question of how to finance the roughly 235 bn Euro of transport infrastructure for the priority projects identified by the Van Miert Report is at the moment at the centre of a key debate within the Union: on one hand there are those calling for a more flexible interpretation of the stability pact to the benefit of investment in transport infrastructure. On the other hand, if the funding does not come from the taxpayer it has to come from the user, and from a new approach to infrastructure charging and cross financing. It is clear to all that it is not with the current 700 million Euro of the TEN budget that we are going to realise the projects identified.

The next financial perspectives of the European Union will have to take this into account.

<u>*Excerpts from the HLG Report*</u>

On the EIB facilities

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28. In this respect, the Group notes with interest the idea of the European Parliament 63 in its resolution on the White Paper on the common transport policy *"of creating within the framework of the financial perspectives a* ***European Transport Fund****, a financial instrument with an appropriate budget, applying to all the States of the Union, for all the modes of transport and for all the problems of the sector* ".

63 Resolution of 12 February 2003, Draughtsman M.Juan de Dios Izquierdo Collado. Paragraph 82.

29. The European Investment Bank (EIB) plays an important role. It can borrow on the international markets at advantageous rates and can consequently grant loans at advantageous conditions to the projects of common interest. Since 1993, the EIB has approved loans for TEN-T projects with a total amount of € 80 billion and has financed some € 40 billion in public private partnerships.

30. **The Group welcomes with interest the EIB's readiness to create a new 'EIB TENs Investment Facility (TIF)' allowing the granting of long-term loans (35 years) covering up to 75% of the costs of TEN-T projects, up to a volume of € 50 billion for the period 2004-2010. This facility will offer a special flexibility for maturity, grace periods, and repayment.**

31. In the framework of this facility, the EIB envisages giving ***priority to projects of the trans-European network contributing to regional development, cross border projects and intelligent transport systems***. The Group welcomes with interest these priorities, in particular cross border projects.

32. Moreover, in the context of private finance and public-private partnerships for TENs, in addition to the existing Structured Finance Facility for higher-risk loans, the EIB could provide a ***special guarantee scheme for long-term investments***.

33. Creating an infrastructure capital fund to provide equity and mezzanine finance with…